



Philadelphia Homeownership Center

U.S. Department of Housing and Urban Development

The Wanamaker Building
100 Penn Square East
Philadelphia, PA 19107-3389

May 18, 2000

CIRCULAR LETTER PH 00-04

TO: All Approved Mortgagees Doing Business in Connecticut, Delaware, District of Columbia, Maine, Maryland, Massachusetts, , Michigan, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, and West Virginia

FROM: Engram A. Lloyd, Director, Philadelphia Homeownership Center

SUBJECT: Revision to Circular Letter PH 99-08

Circular Letter PH 99-08 was issued primarily to assist mortgagees in the processing of FHA - insured mortgages on HUD-Owned properties. In this Circular Letter, it is indicated that HUD has authorized, as a sales incentive, permitting borrowers to specify in Item 5 on the REO sales contract an amount which HUD, as seller, will pay on the borrower's behalf at settlement. Also, that this amount may be applied to the actual cost, of closing costs and/or **pre-paid** expenses.

Subsequent to the issuance of this Circular Letter, we have been advised by HUD Headquarters staff that the Department does not intend to offer the payment of a borrower's pre-paid expenses as a sales incentive. Therefore, we are hereby revising the instructions contained in Circular Letter PH 99-08. **Pre-paid** items, such as real estate taxes, insurance and interest, are **not** considered to be financing and/or closing costs and **cannot** be paid by HUD out of the Item 5 allowance.

We are also revising our instructions regarding Section 203(b) With Repair Escrow cases. Mortgagees should calculate the maximum mortgage on Form HUD-92900-PUR (10/98) per instructions in Mortgagee Letter 98-29 and then add the Repair Escrow amount to that figure.

The figure entered on Line 11.a. of the Form HUD-92900-PUR should reflect the lesser of the sales price, or the as-is value. Line 11.b. should be left blank. The appropriate LTV factor should be applied to the figure on Line 11.a. with the results shown on Line 11.d. Please note that this amount may need to be adjusted to meet the statutory 3 percent investment requirement. After these calculations are completed, the total repair escrow amount is then added to the figure on Line 11.d. to arrive at the final base mortgage amount. Mortgagees should note this calculation in the Remarks section of Form HUD-92900-PUR and enter the results on Line 3.a. Note: The 3 percent investment requirement is calculated on the sales price.

We appreciate your cooperation in complying with these policies. If you have any questions or comments, please direct them to the Underwriting/Endorsement Branch at (800) 440-8647.